

AR29

Annual Report 1969



Officers

Chairman:
HENRY BORDEN, S.M., C.M.G., Q.C.

President & Chief Executive Officer:
WILLIAM D. MULHOLLAND

Vice-President & General Manager:
M. F. NICHOLSON

Vice-President:
H. W. MACDONELL, Q.C.

Secretary:
G. R. DEVEY, C.A.

Treasurer:
M. C. BURNES, C.A.

Directors

*HENRY BORDEN, S.M., C.M.G., Q.C.
Toronto, Ontario
Former President and Chairman,
Brazilian Light & Power Company,
Limited

THE HON. MAURICE BOURGET, P.C.,
Lévis, Quebec
Member of the Senate of Canada

BERNARD D. BROEKER,
Bethlehem, Pa., U.S.A.
Chairman of Finance Committee and
General Counsel,
Bethlehem Steel Corporation

PAUL DESMARAIS,
Montreal, Quebec
Chairman and Chief Executive Officer
Power Corporation of Canada Limited

*SIR VAL DUNCAN, O.B.E.,
London, England
Chairman and Chief Executive,
The Rio Tinto-Zinc Corporation Limited

G. PETER FLECK,
New York, U.S.A.
Chairman,
New Court Securities Corporation and
Amsterdam Overseas Corporation

LEWIS W. FOY,
Bethlehem, Pa., U.S.A.
Vice-President, Purchasing,
Bethlehem Steel Corporation

J. GEORGES-PICOT, K.B.E.,
Paris, France
Chairman of the Board and
Managing Director,
Compagnie Financière de Suez et de
l'Union Parisienne

J.-P. GIGNAC, Eng.,
Montreal, Quebec
President & General Manager,
Sidbec and Dominion Steel and Coal
Corporation Limited

*SAM HARRIS,
New York, U.S.A.
Senior Partner,
Strasser, Spiegelberg, Fried & Frank

J. H. MOWBRAY JONES, D.Eng.,
Montreal, Quebec
Director,
Bowater Paper Corporation Limited,
London, England

*WILLIAM D. MULHOLLAND
Montreal, Quebec
President & Chief Executive Officer,
British Newfoundland Corporation
Limited and Churchill Falls (Labrador)
Corporation Limited; Chairman,
British Newfoundland Exploration
Limited

*M. F. NICHOLSON,
Montreal, Quebec
Vice-President & General Manager,
British Newfoundland Corporation
Limited; President, British Newfoundland
Exploration Limited; Chairman, Twin
Falls Power Corporation Limited

GORDON F. PUSHIE,
St. John's, Newfoundland
Industrial Consultant

*EDMUND L. de ROTHSCHILD, T.D.,
London, England
Senior Partner,
N. M. Rothschild & Sons

H. GREVILLE SMITH, C.B.E.,
Montreal, Quebec
President,
Canadian International Investment
Trust Limited

ARTHUR S. TORREY,
Montreal, Quebec
Honorary Chairman,
Pitfield, Mackay, Ross & Company
Limited

*SIR MARK TURNER,
London, England
Deputy Chairman,
Kleinwort Benson Ltd. and
The Rio Tinto-Zinc Corporation Limited

**Member of the Executive Committee*

Registered Office

1 Viking Road
St. John's, Newfoundland

Executive Office

One Westmount Square
Montreal 216, Quebec

Transfer Agent and Registrar

The Royal Trust Company
St. John's, Newfoundland; Montreal.
Quebec; Toronto, Ontario

Shares Listed

Montreal Stock Exchange
Toronto Stock Exchange

Annual General Meeting

The Company will hold its
Annual General Meeting on
Wednesday, May 6, 1970,
at 11:30 a.m., Eastern Daylight
Saving Time, in the
Salon Outremont,
Hotel Bonaventure,
Montreal 114, Quebec,
Canada

Cover photo montage features areas of Brinex exploration activity during 1969. Illustrated are (left to right from back cover) northern Labrador near the coastal outport of Nain; drilling underway on the Michelin uranium occurrence; an aerial view of the Aillik drill camp; modern transportation at Makkovik; and activity at North West River, the Brinex base for Labrador exploration.

On peut obtenir un exemplaire français de ce rapport auprès du service des Relations publiques, British Newfoundland Corporation Limited, Un, Westmount Square, Montréal 216 (Québec).

Foreword from the President

APR 20 1970

The year just ended witnessed tragic losses as well as great achievement. On May 12, officers of Churchill Falls (Labrador) Corporation Limited and Hydro-Quebec signed a power contract with a gross value of approximately \$5 billion. In rapid succession, the concluding and by far the largest elements of the permanent financing program for the Project were signed. On May 13, agreements were signed with a consortium of Canadian banks providing for a \$150 million term bank loan — a record. On May 15, agreements were signed with a group of Canadian and United States institutions providing for the purchase of \$590 million of bonds — another record. With the last signa-



ture, doubt that such a large undertaking could be launched successfully was laid to rest. To the many men and women in public and private life who contributed to bringing this about goes great credit and, I hope, the enduring personal satisfaction of having shared in the achievement of bringing this undertaking to its present advanced stage.

One of these was Donald Gordon, C.C., C.M.G., LL.D., who forsook well-earned retirement following a career distinguished in many respects, but particularly in service to Canada. Donald Gordon was a giant of a man, and his confidence, his courage and his integrity matched his stature. In two short years of service to the Company, he contributed on the same scale — lavishly. And when he died, almost on the eve of the events I have just referred to, he left not only the mark of his achievements but the affection of his colleagues.

Almost concurrently with the conclusion of the power contract and financing negotiations, events elsewhere were taking a turn for the worse. On May 9, following the start of a strike by workers in the iron ore mining industry, the Quebec North Shore & Labrador Railway suspended service. Accordingly, for a substantial portion of the limited northern construction season, our people and their teammates in associated organizations rose to the challenge, first of providing the necessities of life to a northern community of several thousand men, women and children and, secondly, of carrying on with their work under trying circumstances. Essential com-

modities were moved to the site by means of a round-the-clock air lift utilizing the then partially completed airstrip.

In October, we suffered a further loss. The Hon. Robert H. Winters, P.C., Chairman of the Company from 1963 to 1965, passed away suddenly to the sorrow of his friends and former colleagues.

Then, on the evening of November 11, we were shocked to learn of the crash in Labrador of the CFLCo aircraft, carrying to their deaths Donald J. McParland, Eric G. Lambert and John F. Lethbridge of Brinco; Fred E. Ressegieu, J. Herbert Jackson and Arthur J. Cattle of Acres Canadian Bechtel; and the two pilots of the aircraft. The loss to the Company was exceeded only by the enormity of the personal tragedies involved. For all of us associated with these men as friends and as colleagues over the years, this was surely one of the grimmest hours we shall ever experience.

Incredibly, the men and women of the Company took this cruelest of blows in their stride without impairment of their organizational integrity. The ability to absorb a blow as potentially crippling as this one, with comparable losses in ACB, our associated engineering and construction management organization, is the hallmark of a truly outstanding team and is perhaps the best indication of the calibre of the leadership lost to us. We have every reason to be proud of these men and women. I have every confidence that they will meet the tough challenges ahead of us with the same unquenchable spirit and quiet strength they have demonstrated in the past. It is a great privilege for me to begin an even closer association with them.

At this stage in our affairs, it is very gratifying to be able to report to you that the Churchill Falls Development continues to be on schedule and within cost estimates. In the light of events of the past year, this is an accomplishment for which our staff and those of associated organizations deserve high praise. At the same time,

(Continued on page 4)

Foreword from the President

(Continued from page 3)

I should tell you that it will require an outstanding effort on the part of all concerned to maintain this status during the current year.

This year we are again enlarging our mineral exploration activities. At the same time, we are taking steps to focus our efforts upon areas which appear on the basis of previous work to offer greatest promise. In locations where indications of mineralization are of particular interest, we are prepared to consider joint arrangements looking to more intensive investigation and, if warranted, development of the property. In the Kaipokok Bay-Michelin area, where extensive evidences of uranium mineralization are being investigated under a joint venture agreement, results continue to be encouraging.

As you know, an extensive program

of site investigation and conceptual design work was carried out last year in connection with a potential hydro-electric power development at Gull Island on the Lower Churchill River. This work is expected to be concluded very shortly. There is, however, no question as to the technical feasibility of a hydro-electric power development at this site and it would appear that an installation with a capacity of the order of 1,600 megawatts would be indicated.

Development of the Gull Island site becomes a practical possibility as a result of the upstream regulation of flow achieved by the Churchill Falls development. It is the logical second step towards utilization of the full potential of the immense hydraulic resources of the Churchill River. It would surely be desirable to achieve

the fullest utilization of this natural resource.

While we are concerned at this time with an evaluation of conceptual and technical considerations, we shall shortly have to consider the commercial and financial aspects. Although it is too early to speculate upon the outcome, it is unfortunately only too apparent that the proposals for revision of the Canadian tax structure would, if implemented, create serious problems for such an undertaking. Indeed, the very uncertainty which exists at the present time in this area constitutes a formidable obstacle to our proceeding with any major project.

In reviewing the year's events, I would be remiss if I did not comment upon the broad significance to the Company of the Government's White




Paper containing its proposals for a restructuring of the tax system. These proposals, if implemented, would adversely affect Brinco and its shareholders in a number of ways. Among these are the proposed treatment of utility companies, which would place our shareholders at a considerable disadvantage vis-à-vis shareholders in other enterprises; the proposed change in the treatment of dividends in relation to capital cost allowances, which is especially embarrassing to long-lived projects involving heavy capital investment; and the proposed changes in the taxation of mining operations, which in a broad sense have the effect of rendering more stringent the economic tests which must be satisfied before a property can be considered for development. In response to the Government's solicitation of comments the

Company has prepared briefs with a view to their submission to the Parliamentary Committees which are considering the White Paper. In these briefs we have endeavored to indicate what we believe will be the serious economic impact upon the Company and its shareholders, and presumably upon others similarly situated, of certain of the proposals should they be implemented in their present form. It is to be expected that in formulating legislation the Government will take account of the views which are being expressed to these committees and it would therefore be premature to make any final judgment on the likely changes in tax legislation.

Twin Falls Power Corporation experienced its first full year at the expanded capacity of 307,000 horsepower. The reliability of service to its

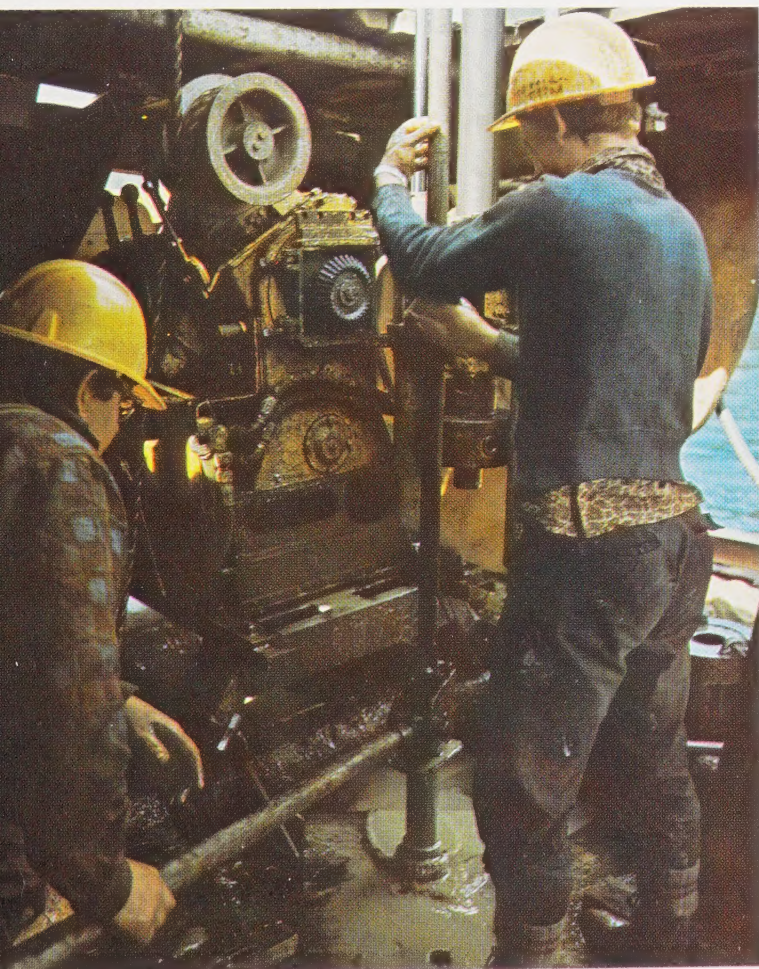
customers is a credit to the staff of this company.

Before closing, I would like to express our appreciation to the many individuals and organizations who generously offered their support and assistance as well as their condolences in the days following the aircraft accident. It is immensely heartening to know that we have the support of so many friends here in Canada, in the United States and overseas.



WILLIAM D. MULHOLLAND
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Montreal, March 10, 1970



Facing page left to right: Modern exploration techniques rely heavily on sophisticated electronic equipment and aerial reconnaissance. Helicopters serving drill camps and field crews in the Kaipokok Bay area refuel at Postville (lower left). Remote drill camps such as the one at the Michelin occurrence are the front lines of exploration activity. Above: Field and engineering studies during 1969 at Gull Island on the Lower Churchill River included mapping of the area and 14,000 feet of drilling (left). Studies indicate that the site has a hydro-electric potential of 1,600,000 kw.

Report of the Directors to Shareholders

During the year under review, the Company experienced some notable achievements and suffered some tragic losses.

During the week of May 11, 1969, the signing ceremonies took place at which all the financing arrangements for the Churchill Falls development were formally concluded and the power contract with Hydro-Quebec signed. The successful launching of this great hydro-electric development by Brinco's principal subsidiary, Churchill Falls (Labrador) Corporation Limited (CFLCo), after many years of preparation and negotiation, marked an important milestone in the Company's history.

Shortly before this event, your directors were deeply saddened by the sudden death, on May 3, of Mr. Donald Gordon, President and Chief Executive Officer. Since joining Brinco in 1967, Mr. Gordon's great talents and energy had been dedicated to the achievements referred to above. Under his leadership the Company's position was immeasurably strengthened and his loss has been deeply felt. Mr. Gordon was succeeded as President by Mr. Donald J. McParland, who had been a Vice-President of Brinco since 1964 and President and Chief Executive Officer of CFLCo since 1966.

On November 11 last, the jet aircraft owned by CFLCo crashed on a flight from Churchill Falls to Wabush airport with no survivors. On board, in addition to the two pilots, were Mr. McParland, Eric G. Lambert, Vice-President, Finance, of Brinco and CFLCo, John F. Lethbridge, Executive Assistant to Mr. McParland; Fred E. Ressegieu, General Manager, J. Herbert Jackson, Assistant General Manager and Arthur J. Cantle, Assistant Manager of Construction, all three of Acres Canadian Bechtel of Churchill Falls. The loss of these senior executives was a tragic blow to their colleagues, to the Company and to related organizations.

Mr. McParland's contribution to the development and implementation of the Churchill Falls power project, together with his wide experience in mining and major construction projects, had made him a most suitable choice to succeed Mr. Gordon as President. His death has deprived the Company of an excep-

tionally able and imaginative leader. Mr. Lambert played key roles in planning and implementing a modern system of project financial controls and in the planning and carrying out of the complex financing arrangements — all of great importance to the completion of the Churchill Falls undertaking.

The plans for which these executives of the Company and of the Acres Canadian Bechtel organization shared responsibility were so well conceived, and the organization as a whole was staffed with such able and dedicated people, that the shock of these tragedies was absorbed and the Company was able to progress on all fronts with a minimum of interruption.

Following the death of Mr. McParland, Sir Val Duncan, Chairman of The Rio Tinto-Zinc Corporation Limited and Chairman of the Executive Committee of the Company, served as temporary President of Brinco and CFLCo until January 5, 1970, when Mr. William D. Mulholland took office as President and Chief Executive Officer of both companies.

Mr. C. T. Manning, Q.C., Vice-President and General Counsel, resigned on December 31, 1969. His years of devoted and able service to the organization are gratefully acknowledged. As of March 1, 1970, Mr. Harry W. Macdonell, Q.C., was elected a Vice-President and

appointed General Counsel of the Company and of CFLCo.

A number of changes took place during the year in the composition of the Board of Directors. The following directors retired: Mr. B. C. Gardner, Mr. Paul de Laszlo and his alternate, Mr. Stuart Finlayson, Mr. T. Ross Moore and Mr. Philip Shelbourne. The retiring directors rendered valuable services to the Company over a period of many years and their counsel will be greatly missed.

In the case of Mr. Gardner, his resignation was the formal ending of an association dating back to 1953 when Brinco was founded. In that year Mr. Gardner became the Company's first President while Chairman of the Bank of Montreal and still active in the affairs of the Bank. His warm

(Continued on page 19)

BRITISH NEWFOUNDLAND CORPORATION LIMITED
AND WHOLLY OWNED SUBSIDIARY

Consolidated Balance Sheet, December 31, 1969

Assets	<u>1969</u>	<u>1968</u>
Current assets:		
Cash and short-term deposits	\$ 5,406,440	6,275,216
Marketable securities (market value \$187,750)	197,660	—
Accounts receivable	1,494,971	931,257
Special refundable tax	95,484	113,238
Supplies and prepaid expenses	512,896	411,912
Total current assets	<u>7,707,451</u>	<u>7,731,623</u>
Investment in Churchill Falls (Labrador) Corporation Limited (notes 1 & 2)	50,426,566	50,242,854
Land, buildings and equipment, at cost less accumulated depreciation (note 4)	2,190,225	2,531,662
Preproduction expenditures less amounts written off (note 4)	1,300,732	1,839,601
Expenditures on Lower Churchill River Project	2,351,250	392,254
Expenditures on mineral, timber and water power rights and concessions less amounts written off (note 4)	45,729	45,729
Exploration expenditures less amounts written off (note 3)	—	4,573,086
Organization and financing expenses	2,427,246	2,424,543
	<u>\$ 66,449,199</u>	<u>69,781,352</u>
Liabilities		
Current liabilities:		
Accounts payable (including \$16,680 to subsidiary)	\$ 533,525	372,218
Accrued liabilities	390,398	312,456
Taxes payable	114,000	128,807
Total current liabilities	<u>1,037,923</u>	<u>813,481</u>
Shareholders' equity:		
Capital stock (note 5)	65,362,444	65,282,034
Retained earnings (note 3)	48,832	3,685,837
	<u>65,411,276</u>	<u>68,967,871</u>
Commitments and contingent liabilities (note 9)	<u>\$ 66,449,199</u>	<u>69,781,352</u>

The accompanying notes are an integral part of the above consolidated balance sheet and should be read in conjunction therewith.

On behalf of the Board:

WILLIAM D. MULHOLLAND, Director.

M. F. NICHOLSON, Director.

BRITISH NEWFOUNDLAND CORPORATION LIMITED
AND WHOLLY OWNED SUBSIDIARY

Consolidated Statement of Earnings and Retained Earnings
for the year ended December 31, 1969

	<u>1969</u>	<u>1968</u>
Sales:		
Sales of copper concentrates (note 6)	\$ 6,025,735	5,353,718
Other sales	25,591	31,360
	<u>6,051,326</u>	<u>5,385,078</u>
Revenue from management services	—	75,000
	<u>6,051,326</u>	<u>5,460,078</u>
Operating and administrative expenses	3,078,653	2,488,311
Depreciation and preproduction expenses written off	1,279,281	1,294,054
Exploration expenditures (note 3)	1,234,196	508,121
Mining tax	107,862	113,100
	<u>5,699,992</u>	<u>4,403,586</u>
Operating profit for the year	351,334	1,056,492
Income from investments	401,035	128,447
	<u>752,369</u>	<u>1,184,939</u>
Equity in net earnings of subsidiary company (note 1)	243,527	208,616
Net earnings for the year (notes 1 & 3)	995,896	1,393,555
Retained earnings at beginning of year (note 3)	3,685,837	2,377,274
	<u>4,681,733</u>	<u>3,770,829</u>
Net exploration expenditures as at December 31, 1968 written off (note 3)	(4,573,086)	—
Reduction in equity of retained earnings of subsidiary company due to change in minority interest	(59,815)	(84,992)
Retained earnings at end of year (note 3)	<u>\$ 48,832</u>	<u>3,685,837</u>

The accompanying notes are an integral part of the above consolidated statement of earnings and retained earnings and should be read in conjunction therewith.

BRITISH NEWFOUNDLAND CORPORATION LIMITED
AND WHOLLY OWNED SUBSIDIARY

Consolidated Statement of Source and Application of Funds
for the year ended December 31, 1969

	<u>1969</u>	<u>1968</u>
Source of funds:		
From current operations:		
Net earnings before equity in earnings of subsidiary company	\$ 752,369	1,184,939
Depreciation	1,279,281	1,294,054
Exploration expenditures written off	—	508,121
Other non-cash items	—	173
	<u>2,031,650</u>	<u>2,987,287</u>
Issue of capital stock	80,410	42,346,084
Conversion to shares of advance to Churchill Falls (Labrador) Corporation Limited ..	—	2,006,903
	<u>2,112,060</u>	<u>47,340,274</u>
Application of funds:		
Expenditures on Lower Churchill River Project	1,958,996	—
Land, buildings and equipment — net	398,975	209,315
Organization and financing expenditures	2,703	1,422,992
Preproduction expenditures	—	185,903
Exploration expenditures	—	572,523
Investment in shares of subsidiary	—	40,006,552
	<u>2,360,674</u>	<u>42,397,285</u>
Increase (decrease) in working capital	\$ (248,614)	4,942,989

The accompanying notes are an integral part of the above consolidated statement of source and application of funds and should be read in conjunction therewith.

BRITISH NEWFOUNDLAND CORPORATION LIMITED
AND WHOLLY OWNED SUBSIDIARY

Notes to the Consolidated Financial Statements as at December 31, 1969

(1) Principles of Consolidation:

The consolidated financial statements of British Newfoundland Corporation Limited include the accounts of its wholly owned subsidiary British Newfoundland Exploration Limited ("Brinex").

The Company holds 56.96 % of the issued share capital of Churchill Falls (Labrador) Corporation Limited ("Churchill Falls") and Churchill Falls in turn owns 33 $\frac{1}{3}$ % of the share capital of Twin Falls Power Corporation Limited which shares represent voting control of that company.

In the opinion of the directors, the assets and liabilities and operations of Churchill Falls are so dissimilar to those of the Company, that a consolidation of its accounts with those of the holding company does not produce financial statements which are as meaningful and informative as the separate financial statements of the Company and Churchill Falls. The investment in Churchill Falls has, however, been adjusted as at December 31, 1969, to an equity basis and the related amounts included in the statement of earnings and retained earnings. Previously the investment in Churchill Falls was carried at cost and the financial statements were presented on a consolidated basis.

For comparative purposes the 1968 figures have been adjusted to the same basis.

(2) Investment in Subsidiary Company:

	Shares at cost	Company's Share of earnings since acquisition	Total
Churchill Falls (Labrador) Corporation Limited	\$49,646,797	779,769	50,426,566

A proportion of the Company's shareholding in Churchill Falls is deposited under a Voting Trust Agreement between the Company and Quebec Hydro-Electric Commission.

The covenants of the debt instruments of Churchill Falls prohibit that company from paying cash dividends prior to completion of the Churchill Falls Project and place restrictions on the payment of cash dividends thereafter.

(3) Earnings and Retained Earnings:

As a result of adjusting the investment in Churchill Falls to an equity basis, the retained earnings of the Company as at January 1, 1968, have been increased by \$472,433 to \$2,377,274 to reflect equity in net earnings of the subsidiary company as at that date.

In 1969 Brinex adopted the policy of writing off exploration expenditures in the year incurred whereas previously these expenditures were written off at 10% of the unamortized balance. In consequence exploration expenditures incurred in 1969 of \$1,234,196 were charged against earnings, an increase of \$653,458 over that which would have been charged on the old basis. Net accumulated exploration expenditures of \$4,573,186 as at December 31, 1968, have been written off against retained earnings.

(4) Cost and Accumulated Depreciation and Amortization:

	Cost	Depreciation and Amortization	Net
Land, buildings and equipment	\$ 5,016,341	2,826,116	2,190,225
Expenditures on mineral, timber and water power rights and concessions	144,292	98,563	45,729
Preproduction expenditures	3,477,659	2,176,927	1,300,732

(5) Capital Stock:

Common shares without nominal or par value authorized and issued as at December 31, 1969, were:

	<u>Shares</u>	<u>Amount</u>
Authorized	25,000,000	
Issued and fully paid	22,722,152	\$65,362,444

During 1969 options granted to employees in prior years were exercised on 17,000 Common Shares (15,000 by an officer) for a total cash consideration of \$80,410. As at December 31, 1969, the following options on Common Shares granted to employees in prior years were outstanding:

(i) 208,000 Common Shares (113,500 to certain directors or officers of the Company) at \$4.73 per share exercisable for a period of five years from October 10, 1968.

(ii) 5,000 Common Shares granted to a director and officer at \$4.00 per share exercisable until August 24, 1970.

As at December 31, 1969, the Company had agreed to sell 100,000 Common Shares to a director (now an officer) of the Company at a price of \$4.17 per share. This transaction was completed on January 2, 1970.

(6) Sales of Copper Concentrates:

Sales of copper concentrates include an amount of \$2,836,875 in respect of copper concentrates delivered during the year for which final settlement had not been received. These shipments have been valued at an estimated copper price of 40¢ per pound less costs of smelting, refining and freight.

(7) Income Taxes:

The Company has not made any provision for taxes on income because it did not have any income subject to tax.

Brinex will claim for tax purposes further exploration and preproduction expenditures to offset income for 1969 that would otherwise be taxable. At December 31, 1969, depreciation and amounts written off since the commencement of operations exceed capital cost allowances claimed by \$8,314,000.

(8) Pension Liability:

Brinex's liability under its pension plan for past services is being paid by annual instalments over 21 years. The payment for past service in 1969 was \$2,200. The total unfunded liability for past service is \$25,700.

(9) Commitments:

In 1953 the Government of Newfoundland and the Company entered into an agreement ("Principal Agreement") whereby the Company was granted options on extensive natural resource concessions within the Province of Newfoundland.

Under the terms of the Principal Agreement, as amended, the Company is obligated to pay to the Government of Newfoundland an annual rental equal to 8% of the consolidated net profits before income taxes (as defined) of the Company and its subsidiaries excluding Churchill Falls (Labrador) Corporation Limited, resulting from the operation of the concessions and rights granted by the Principal Agreement.

(10) Directors' Remuneration:

Remuneration paid to Directors of the Company in 1969 by the Company and Brinex amounted to \$68,767, and by Churchill Falls amounted to \$12,850.

**BRITISH NEWFOUNDLAND CORPORATION LIMITED
AND WHOLLY OWNED SUBSIDIARY**

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of British Newfoundland Corporation Limited and wholly owned subsidiary as of December 31, 1969 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent, except for the changes referred to in notes 1 and 3 to the consolidated financial statements with which we concur, with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants.

Montreal, Que.
March 4, 1970

Balance Sheet as at December 31, 1969

Assets	<u>1969</u>	<u>1968</u>
Current assets:		
Cash and short-term deposits	\$ 43,935,702	3,634,531
Accounts receivable (including \$48,728 due from affiliates)	5,374,358	3,668,673
Special refundable tax	21,713	23,083
Prepaid expenses	492,106	318,539
Total current assets	<u>49,823,879</u>	<u>7,644,826</u>
Funds held by Trustee	1,400,000	—
Investment in shares of Twin Falls Power Corporation Limited (notes 1 and 2)	2,682,959	2,747,671
Churchill Falls power project, at cost	242,571,510	113,799,329
Less accumulated depreciation	<u>5,012,656</u>	<u>4,287,338</u>
	237,558,854	109,511,991
Debt discount and financing expenses	3,182,002	1,605,783
	<u>\$294,647,694</u>	<u>121,510,271</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 18,272,848	10,820,437
Accrued liabilities	<u>2,941,180</u>	<u>1,668,233</u>
Total current liabilities	21,214,028	12,488,670
Long-term debt (note 5)	188,984,488	25,000,000
Shareholders' equity:		
Capital stock (note 6)	82,899,992	82,899,986
Retained earnings (notes 3 and 7)	<u>1,549,186</u>	<u>1,121,615</u>
	84,449,178	84,021,601
Commitments and contingent liabilities (note 8)	<u>\$294,647,694</u>	<u>121,510,271</u>

The accompanying notes are an integral part of the above balance sheet and should be read in conjunction therewith.

On behalf of the Board:

WILLIAM D. MULHOLLAND, Director.

R. A. BOYD, Director.



**Statement of Earnings and Retained Earnings
for the year ended December 31, 1969**

	<u>1969</u>	<u>1968</u>
Revenue from Twin Falls Power Corporation Limited:		
Rental of rights and facilities	\$ 725,000	662,000
Construction management fee	<u>318</u>	<u>202,213</u>
Gross revenue	725,318	864,213
Newfoundland rental	70,217	63,796
Depreciation	<u>725,318</u>	<u>864,213</u>
Operating profit (loss) for the year	(70,217)	(63,796)
Equity in net earnings for the year of Twin Falls Power Corporation Limited (note 1) ..	<u>497,788</u>	<u>439,031</u>
Net earnings for the year (notes 7 and 10).....	427,571	375,235
Retained earnings at beginning of year (note 3)	<u>1,121,615</u>	<u>746,380</u>
Retained earnings at end of year	<u>\$ 1,549,186</u>	<u>1,121,615</u>

The accompanying notes are an integral part of the above statement of earnings and retained earnings and should be read in conjunction therewith.



**Statement of Source and Application of Funds
for the year ended December 31, 1969**

Source of funds:	<u>1969</u>	<u>1968</u>
From current operations:		
Operating profit (loss)	\$ (70,217)	(63,796)
Depreciation	<u>725,318</u>	<u>864,213</u>
	655,101	800,417
Dividends received from Twin Falls Power Corporation Limited (note 1)	562,500	400,000
Issue of capital stock	6	58,750,006
Issue of long-term debt:		
First Mortgage Bonds Series A	77,109,488	—
First Mortgage Bonds Series B	11,875,000	—
General Mortgage Bonds	<u>75,000,000</u>	<u>25,000,000</u>
	<u>165,202,095</u>	<u>84,950,423</u>
Application of funds:		
Development of Churchill Falls power project	128,772,181	71,785,539
Financing expenses	1,576,219	1,388,494
Funds held by Trustee	1,400,000	—
Conversion to shares of advances from shareholders	<u>—</u>	<u>12,737,040</u>
	<u>131,748,400</u>	<u>85,911,073</u>
Increase (decrease) in working capital	<u>\$ 33,453,695</u>	<u>(960,650)</u>

The accompanying notes are an integral part of the above statement of source and application of funds and should be read in conjunction therewith.



Notes to the Financial Statements as at December 31, 1969

(1) Twin Falls Power Corporation Limited:

Churchill Falls (Labrador) Corporation Limited ("Churchill Falls") holds voting control of Twin Falls Power Corporation Limited ("Twin Falls") through its ownership of all the Class A shares which carry four votes per share but these shares represent only one third of the shareholders' interest in Twin Falls and, therefore, its assets and liabilities have not been included in Churchill Falls' financial statements.

In 1969 the Company changed its accounting practice in respect of its investment in Twin Falls to an equity basis and included the related amounts in the statement of earnings and retained earnings. Previously the investment in Twin Falls was carried at cost.

For comparative purposes the financial statements for 1968 have been included on the revised basis.

(2) Investment in shares of Twin Falls Power Corporation Limited:

Original cost		\$ 2,500,000
Equity in retained earnings at beginning of year	\$ 247,671	
Equity in net earnings for the year	497,788	
	745,459	
Dividends received	562,500	182,959
		<u>\$ 2,682,959</u>

(3) Retained earnings:

As a result of adjusting the investment in Twin Falls to an equity basis, the retained earnings as at January 1, 1968 have been increased by \$208,640 to \$746,380 representing the equity in net earnings of Twin Falls of \$1,071,140 less dividends received of \$862,500 to that date. The statement of earnings and retained earnings for the year 1968 has also been adjusted to an equity basis for comparative purposes.

(4) Power Contract:

Quebec Hydro-Electric Commission and Churchill Falls have entered into a power contract dated May 12, 1969, providing for the purchase of substantially all the power from the Churchill Falls power project ("Project") for an initial period of approximately forty years with a renewal for a further period of twenty-five years.

(5) Long-Term Debt:

	<u>Authorized</u>	<u>Issued and Outstanding</u>	
First Mortgage Bonds			
7 ³ / ₄ % Series A due December 15, 2007	\$ 500,000,000 (U.S.)	71,550,000 (U.S.)	77,109,488
7 ⁷ / ₈ % Series B due December 15, 2007	50,000,000	—	11,875,000
General Mortgage Bonds			
7 ¹ / ₂ % due three years after latest maturity of any First Mortgage Bonds	100,000,000	—	100,000,000
			<u>\$ 188,984,488</u>

The First Mortgage Bonds Series A are carried in the balance sheet at the proceeds in Canadian dollars realized at the time such bonds were issued.

Bond Purchase Agreements dated May 15, 1969 have been signed covering the purchase of all the authorized First Mortgage Bonds.

The First Mortgage Bonds are repayable in semi-annual instalments, commencing two years after completion of the Project, sufficient to retire them fully by maturity.

The General Mortgage Bonds are entitled to the benefit of a sinking fund, commencing after completion of the Project, amounting to 2% of the balance outstanding at the commencement of each year, payable in semi-annual instalments. The General Mortgage Bonds are subordinate to the First Mortgage Bonds.

(Continued on page 17)



Notes to the Financial Statements (Continued)

Churchill Falls has entered into an agreement dated May 15, 1969, with a consortium of Canadian banks, the terms of which provide for a credit not exceeding \$150,000,000 at any one time outstanding. No amounts may be drawn down under the agreement prior to January 1, 1972, and it is subject to certain other conditions.

(6) Capital Stock:

During the year 750,000 fully paid Common Shares were issued for a total cash consideration of \$6 in conjunction with six issues of the General Mortgage Bonds. Common Shares without nominal or par value authorized and issued as at December 31, 1969, were:

	<u>Shares</u>	<u>Amount</u>
Authorized	10,000,000	
Issued and fully paid	8,759,999	\$ 82,899,992

There are restrictions on the issue of further capital stock without the approval of the holders of at least 75% of the outstanding Common Stock.

(7) Dividend Restrictions:

The covenants of the debt instruments of Churchill Falls prohibit the payment of cash dividends by Churchill Falls prior to completion of the Project and place restrictions on the payment of cash dividends thereafter.

(8) Commitments and Contingent Liabilities:

- (i) At December 31, 1969, Churchill Falls had entered into contracts related to the Project involving expenditures after that date estimated at \$240,000,000.
- (ii) Under the terms of the Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961, and amendments thereto, Churchill Falls has entered into a 99-year lease covering the water power potential of the Upper Churchill Watershed and is required to pay an annual rental of 8% of the consolidated net profits before income taxes (as defined) and an annual royalty of 50 cents per horsepower year generated (as defined).
- (iii) Churchill Falls' liability under its pension plan for past services is being paid by annual instalments over 21 years. The payment for past service in 1969 was \$4,100. The total unfunded liability for past service is \$34,900 as at December 31, 1969.

(9) Directors' Remuneration:

Remuneration paid to Directors in 1969 amounted to \$18,816.

(10) Income Taxes:

No provision has been made for taxes on income because Churchill Falls did not have any income subject to tax.



AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Churchill Falls (Labrador) Corporation Limited as at December 31, 1969 and the statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1969 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent, except for the change referred to in note 1 to the financial statements with which we concur, with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants.

Montreal, Que.
February 27, 1970

Report of the Directors to Shareholders

(Continued from page 6)

personality and qualities of leadership inspired maximum enthusiasm and effort on the part of his colleagues on the Board of Directors and of the whole management team. As was stated by the Chairman at the last Annual General Meeting: "His great personal prestige added lustre to our early years and his foresight and encouragement in the developments undertaken by the Company have been fully justified by events."

The following new directors were appointed by the Board during the year and re-elected at the Extraordinary and Annual General Meeting on June 25 last: Mr. Bernard D. Broeker, a Director, Chairman of the Finance Committee and General Counsel of Bethlehem Steel Corporation; Mr. Paul Desmarais, Chairman and Chief Executive Officer of Power Corporation of Canada Limited; Mr. Lewis W. Foy, a Director and Vice-President Purchasing of

Bethlehem Steel Corporation; Mr. W. D. Mulholland; and Sir Mark Turner, Deputy Chairman of The Rio Tinto-Zinc Corporation. On January 23, 1970, Mr. J.-P. Gignac, President and General Manager of Sidbec, was appointed a director.

The directors record with sorrow the death, on October 10 last, of the Hon. Robert H. Winters, P.C., who was Chairman and Chief Executive Officer of the Company, before he returned to public life in 1965.

Hydro-Electric Power

Churchill Falls Development

The 1969 Annual Report of CFLCo, which accompanies this report, contains financial and operating information concerning the Churchill Falls development and Twin Falls Power Corporation Limited.

The Company has taken the major role in the equity financing of CFLCo through the formative years of the Churchill River power development and the building of Twin Falls. It owns 57 per cent of the equity capital of CFLCo. The other shareholders in that corporation are the Newfoundland Government and Hydro-Quebec. The latter, in addition, is the principal customer for the power.

Lower Churchill River Project

As foreseen in the Annual Report for 1968, the Company initiated field and engineering studies of the power site at Gull Island on the Lower Churchill River. This program involved an expenditure of approxi-

mately \$2 million. The site investigation work included 14,000 feet of drilling and mapping of the whole area. Design studies indicate that a plant having a capacity of 1,600 megawatts would generate approximately 10 billion kwh per year if interconnected with the Churchill Falls plant. The consulting engineers' report is in process of preparation.

Mining and Exploration

Financial Results of Brinex

It has been the practice to date in Brinex to amortize accumulated exploration expenditures on a straight line basis at the rate of 10 per cent per annum. This led to capitalized exploration expenses on the Balance Sheet as at December 31, 1968, of \$4,573,086. In view of the decision to increase the level of exploration expenditures, a continuation of this practice would result in either indefinite postponement of the amortization of this account or would result in a progressive increase in the level of unamortized exploration expenditures. As, in due course, these expenditures would require to be written off against profits, it is considered that the prudent course from now on is to charge exploration expenses against earnings in the years they are incurred. It has also been decided that exploration expenditures capitalized to date should be written off against Retained Earnings of Brinex. An amount of \$517,811 of the outstanding Advances from Brinco to Brinex has been transferred to Contributed Surplus of Brinex to cover the balance by which accumulated exploration expenses on the books of Brinex exceeded its Retained Earnings. At the same time, \$3,000,000 of the outstanding Advances were repaid by Brinex to Brinco.

Net earnings of Brinex for the year, which under previous practice would have been \$1,497,264, have been reduced as a result of these adjust-

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Report of the Directors to Shareholders

(Continued from page 19)

ments to \$843,810.

Results of the operation of the Whales Back copper mine are closely comparable to results in 1968. The higher average price realized for copper settlements during the year, 62 cents (Canadian funds) per pound compared to 50 cents per pound realized in 1968, resulted in higher sales revenue despite a lower grade of ore treated. Operating and administrative costs during 1969 increased slightly. Cash flow developed during the year amounted to \$3,355,800, of which \$1,634,243 was devoted to exploration and capital expenditures.

The contract held by Brinex for the sale of copper concentrates specifies that the concentrates will be paid for at a price based on London Metal Exchange copper prices. During most of 1969, at the request of the Canadian Government, 20 per cent of the concentrates were priced on the basis of the Canadian domestic copper

price. As the Canadian domestic price has been considerably lower than London Metal Exchange prices, this has meant a reduction in sales revenue in 1969 of in excess of \$400,000.

Exploration and Development

Consequent upon the policy of increasing exploration activities over the mineral concession areas, exploration expenditures by Brinex during the year were \$1,234,196, compared to \$572,523 in 1968. In addition, expenditures on behalf of partners amounted to \$747,000. Total diamond drilling footage amounted to 95,000 feet, of which 31,000 were drilled in Newfoundland and 64,000 in Labrador.

The area in Labrador under joint venture with Urangesellschaft of West Germany, in which Metallgesellschaft A.G. is one of the principal shareholders, remains the focus of interest. Continued mapping and

prospecting in the westerly half of the joint venture area, to follow up results of 1967 airborne geophysical surveys, resulted in the discovery of uranium prospects at Inda Lake and Witch Lake in the Kaipokok Bay zone and of the Emben prospect in the Michelin-McLean Lake zone. These two favorable belts of country are shown on the sketch map of the joint venture area included in this report.

In the Kaipokok Bay zone, uranium mineralization is found at intervals along the southeast boundary of a volcanic rock formation extending 14 miles from the Kitts deposit to the Witch Lake prospect. Approximately five miles of this zone have been tested in three areas of drilling, namely, the Kitts Prospect (one mile), the Gear Lake sector (one mile) and the Nash Lake-Inda Lake sector (three miles). Drilling is continuing along this favorable volcanic contact zone, all of which is largely covered



with overburden.

Drilling continues to be encouraging at the Michelin occurrence in the belt of sedimentary rocks located some 20 miles south of the Kaipokok Bay zone, where a uranium-bearing zone 3,600 feet long has been outlined. Other radioactive occurrences along this belt of sedimentary rocks, including the McLean Lake and Emben prospects, warrant further exploration.

It would be premature at this time to publish estimates of tonnage and grade, or to make predictions on mining possibilities in this area.

In Newfoundland, active exploration was continued in the Halls Bay area, where diamond drilling of a number of base metal prospects is being conducted on a year round basis.

Mining

At the Whales Back mine, 718,490

tons of ore grading 0.86 per cent copper were mined and milled, and produced 21,500 dry tons of concentrate containing an estimated 11,270,000 lbs. of copper. Mine and mill operating costs averaged \$3.35 per ton of ore.

The major part of the development work completed in the Whales Back section was done below the 800-foot horizon. An incline was driven from the 800 to the 975 level and the main orebody was prepared for mining on the 800 and 916 horizons. Ore reserves in the main orebody at year end were 1,849,000 tons grading 1.06 per cent copper.

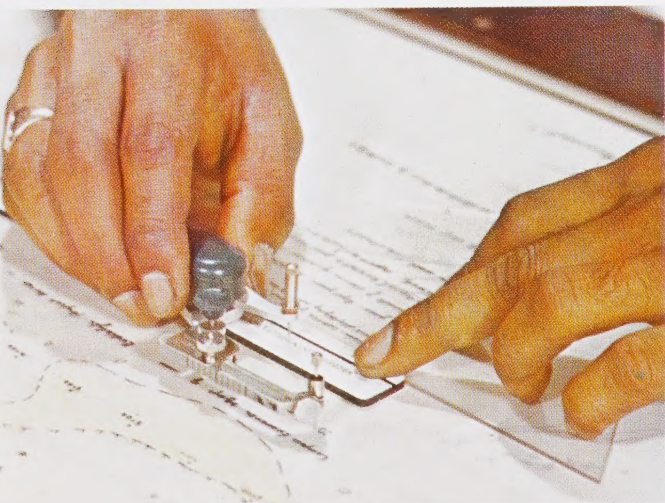
Development work on the 800-foot horizon at Little Deer Pond, 3,000 feet away from the Whales Back orebody, has indicated two distinct veins designated East and West zones respectively. The former, in a complicated folded structure, occurs as a narrow high-grade massive sulphide

vein and has been explored only to a limited extent. The West zone is a well-defined massive sulphide vein with almost continuous values over a length of 600 feet and an average width of eight feet. Car samples indicate a grade in excess of 2 per cent copper. Because development at Little Deer has been confined largely to one horizon, no attempt has been made to calculate ore reserves in that area at this time.

Operations at the plant were generally satisfactory and the accident record was the lowest in the Province of Newfoundland for underground mines.

During 1969, Mr. E. P. Graham, formerly Mine Manager, Whales Back Division, was appointed a Vice-President of Brinex. Mr. Basil Jackson, for many years Mine Manager of the Atlantic Coast Copper Corporation

(Continued on page 22)



Facing page: Map illustrates the area of Labrador under joint venture with Urangesellschaft of West Germany in which Metallgesellschaft A. G. is one of the principal shareholders.

Data gathered by field parties through ground exploration or aerial reconnaissance is forwarded to the Montreal headquarters of Brinex where it is incorporated into maps to determine whether more intensive exploration is warranted. Study of stereoscopic aerial photographs enable photogeologists (above) to examine large areas of terrain to determine what are the most promising areas.

Report of the Directors to Shareholders

(Continued from page 21)

mine at Little Bay, Newfoundland, joined the company in 1969 and was appointed Mine Manager, Whales Back Division.

Legal and Financial

During the year a further agreement was executed by the Government of Newfoundland extending Brinex mineral concessions to include additional land in the Kaipokok River area adjacent to the areas where the uranium prospects previously referred to are being investigated.

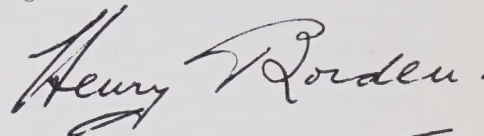
In the past, the Company has presented its financial statements on a consolidated basis. With the increasing development of Churchill Falls, it has become apparent that consolidation of such very different companies as CFLCo and Brinco does not produce statements which are as meaningful and useful as presenting the accounts of CFLCo separately. Accordingly, the Directors in consultation with the

Company's Auditors have decided to present consolidated accounts of the Company and its wholly-owned subsidiary, Brinex, with the Company's investment in CFLCo being carried on an equity basis. The accounts of CFLCo are provided separately in this report.

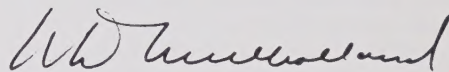
As mentioned earlier in this report, Brinex changed its method of accounting for exploration expenditures during the year. This has resulted in a substantial reduction in earnings and retained earnings on consolidated account in 1969. Advances by Brinco to Brinex of \$9,160,374, outstanding at December 31, 1968, have been reduced during the year to \$5,642,563 by the repayment of \$3,000,000 and the transfer of \$517,811 to contributed surplus.

The Directors wish to record their appreciation of the response of the staff at all levels in the organization to the problems created by the tragic events that occurred during the year.

These problems, superimposed on those connected with the financial and legal ones consequent upon the successful financing, placed a very heavy burden on all. The directors wish to pay tribute to those responsible for the accomplishments of 1969, in spite of the tragic events which befell the organization.

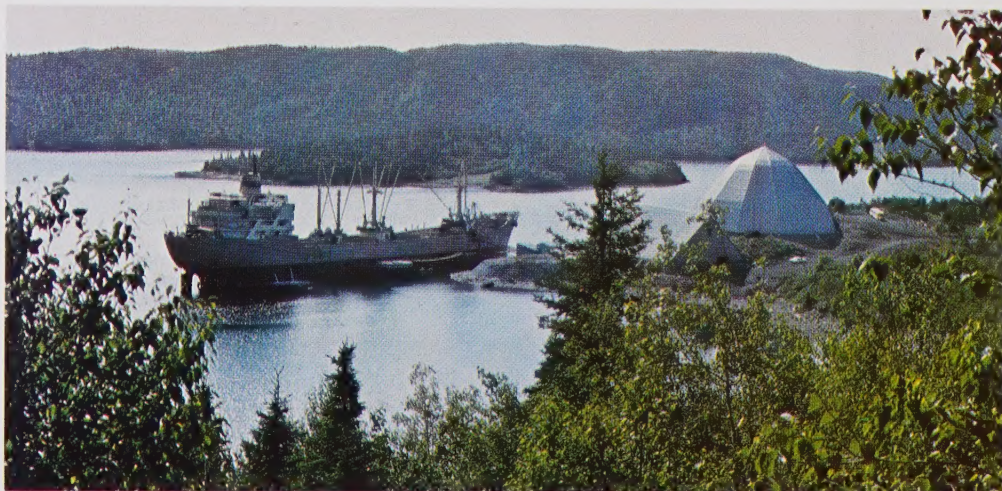


HENRY BORDEN,
CHAIRMAN



WILLIAM D. MULHOLLAND,
PRESIDENT

Montreal, March 10, 1970



The Whales Back Mine (above) at Springdale, Newfoundland, produced 718,490 tons of copper ore grading 0.86 per cent in 1969 which yielded an estimated 11,270,000 pounds of copper. During 1969, the largest ship ever to visit Little Bay, the M. V. Thurunn (lower left) loaded copper concentrate at the Whales Back Mine loading facilities near Springdale (top left).

